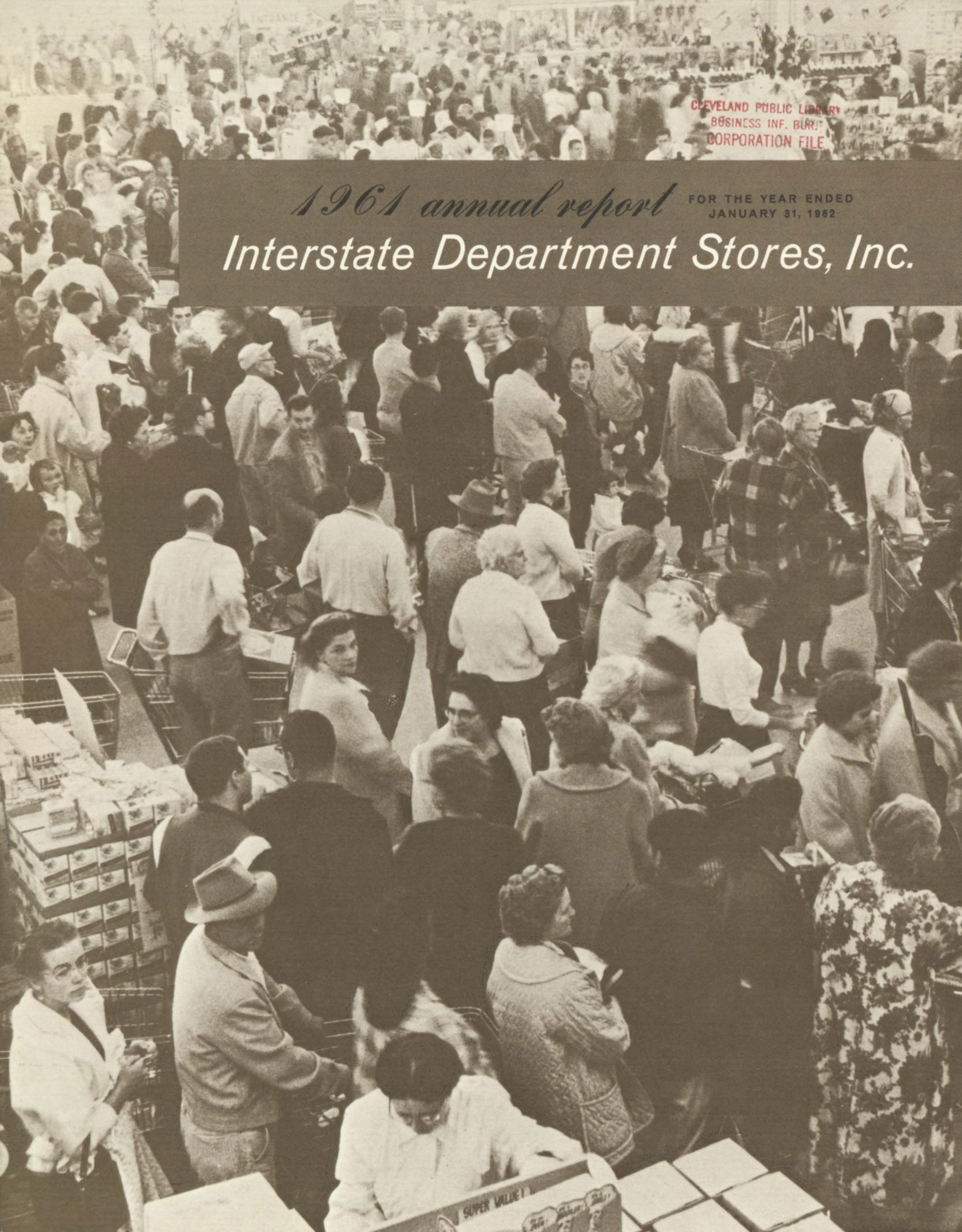


1961 annual report

FOR THE YEAR ENDED
JANUARY 31, 1962

Interstate Department Stores, Inc.

Interstate Department Stores, Inc.

Executive and General Offices: 111 Eighth Avenue, New York, N. Y.

Directors

Samuel J. Abend	M. Lester Mendell
Sol W. Cantor	Albert Parker
Charles E. Federman	Paul D. Preger
Barry Golden	Murray D. Safanie
Emanuel P. Lewis	George H. Stuntz

Harold J. Szold

Officers

Murray D. Safanie *Chairman of the Board*	Barry Golden *Vice President*
Sol W. Cantor *President*	George H. Stuntz *Treasurer*
Samuel J. Abend *Vice President*	Albert Parker *Secretary*

Edward C. Schenkel
Assistant Treasurer and Assistant Secretary

TRANSFER AGENT:	The Chase Manhattan Bank, N. Y.
REGISTRAR:	Manufacturers Hanover Trust Company, N. Y.
GENERAL COUNSEL:	Parker, Chapin and Flattau, N. Y.
PUBLIC ACCOUNTANTS:	S. D. Leidesdorf & Co., N. Y.
SHARES LISTED:	New York Stock Exchange
ANNUAL MEETING:	Fourth Wednesday in May

Comparative HIGHLIGHTS

	Years Ended January 31	
	1962	1961
Total Sales	**$165,219,039**	$114,311,355
Net Income Before Taxes	**3,829,413**	2,385,804
Net Income After Taxes	**2,079,413**	1,490,804
Earnings Per Share*	**1.77**	1.31
Dividends Per Share: Cash	**.45****	.40
Stock	**2%**†	5%††
Long Term Debt	**6,960,967**	3,336,816
Working Capital	**15,168,514**	10,661,936
Stockholders' Equity	**20,620,591**	18,917,757
Stockholders' Equity Per Share	**17.57**	16.64
Current Ratio	**1.9 to 1**	1.7 to 1

* Based on average number of shares outstanding after giving effect to all stock dividends distributed through January 31, 1962 and the 3 for 1 stock split distributed June 23, 1961.

** Quarterly dividends paid since June 1961 have been at the annual rate of $.50.

† Declared January 3rd, 1962, paid February 15th, 1962.

†† Paid on shares outstanding before the 3 for 1 split.

To our STOCKHOLDERS

Last year Interstate Department Stores began to realize more fully the effect of its expansion program which in the period of the last three years has enabled the Company to become a major factor in the discount field.

Our sales rose sharply in 1961 reaching a record high of $165.2 million. This compares with $114.3 million a year ago, and $65.7 million when the program started in 1959. By the end of last year our sales were at an annual rate of approximately $200 million.

Net earnings increased to $2.1 million from $1.5 million in the previous fiscal year. Based on the average number of shares outstanding for both periods, our net for the year totalled $1.77 a share, compared with $1.31 the year before.

Earnings before taxes showed an even sharper increase, rising to $3.8 million from $2.4 million in the previous year. Our provision for federal income taxes was almost double that of a year ago, due to increased profitability on a store-for-store basis and, as a consequence, a higher effective tax rate for the Company as a whole.

The improvement in sales and earnings last year was in line with projections. We are gratified by the results and are moving rapidly ahead with plans to expand further our position in the discount field.

Our growth can be attributed to several factors. In the prior year our chain of discount stores was increased by 11 stores and last year was the first that all of these stores were in operation for a full year. We continued our aggressive store expansion program in 1961 and added eight new units, including seven new Topps stores, three of which are located in the greater Chicago area and the others in Maryland, Connecticut and Michigan. The eighth was a White Front store located in our new warehouse building in Los Angeles.

Profitability was also favorably affected by continuing efforts to consolidate our position in the conventional retail field. One objective has been to sell or terminate stores which fall short of required profit performance and last year we were able to dispose of five stores in this category. Another target has been to strengthen those conventional retail stores which are key stores in their communities and which can be expected to continue on

a profitable basis. We invested $824,000 in store improvements and modernization in 1961 and by the end of the year we had completed plans for doubling the size of our Boston Store in Utica, New York, which is the leading department store in that community.

Our expansion in the discount field has been guided by two strategies. In certain cities we are endeavoring to blanket the community with a number of stores. The objective is to create a single store image through advertising, promotion and public relations, from which all stores in the community will benefit. This approach has been employed in heavy population centers such as Los Angeles, where White Front now has five discount operations, and Chicago which is ringed by four Topps stores. We are planning to expand our already strong position in these communities and to employ this strategy in other mass population centers.

In communities of smaller size we are limiting our operation. It is our view that there is a foreseeable limit to the number of discount operations that a medium sized community can support and that heavy concentration in such cities could create a position of vulnerability. Our plan is to expand on a regional rather than a city basis, and to develop a company image regionally which will be of value to all Interstate discount stores in the area.

Though the discount retail field has grown very rapidly in recent years and is now estimated to account for $4 billion annually in sales, we are convinced that the field will expand many times its present size. At the present time all retail sales

New White Front store at Covina, California.

total approximately $220 billion and of this amount discount sales account for a relatively small percentage—under 2 per cent. It is apparent that this percentage can be substantially increased since there are relatively few mass-selling products that do not lend themselves to the techniques of discounting.

The opportunities for expansion hold great promise, and we are moving vigorously ahead with our program. In the current year we plan to open 20 new discount stores, increasing our discount chain to 45. These new stores will add approximately 1,800,000 square feet of store area and are projected to do an annual volume of about $125 million. Thus far this year we have opened two stores, a Topps store at East Hartford, Connecticut, and a White Front store at Covina, California. Both stores have been very well received by the public, and have already become important factors in the Interstate group.

One of the benefits of our expansion in the discount retail field is that our substantially increased sales have enabled us to lower the cost of our New York headquarters and buying organization in relation to sales. The cost of maintaining this organization has increased modestly over the last three years, during which period the Company has tripled its rate of sales.

To help finance our growth program, last summer the Company issued $5.8 million of subordinated convertible debentures,

Sketch of proposed expansion of the Boston Store in downtown Utica, New York.

which were subscribed to by our stockholders. Other sources of funds included retained earnings and the release of working capital as a result of closing downtown department stores.

Reflecting the improvement in earnings, the Company established a new annual dividend rate of 50 cents a share, an increase of 25 per cent over the prior rate of 40 cents a share annually. The new rate was set June 28, and the first 12½ cent dividend was paid August 15 to stockholders of record July 21.

At last year's annual meeting the Company's stockholders approved an increase in authorized Common Stock from 500,000 to 3,000,000 shares. This enabled the Company to effect a three-for-one split in the 390,624 shares then outstanding. The split, in the form of a stock dividend, was distributed June 23 to stockholders of record May 29. At the end of the fiscal year, the Company declared an additional stock dividend of 2 per cent, and this was distributed February 15, 1962, to stockholders of record January 19, 1962.

Our board of directors was strengthened by the addition of M. Lester Mendell, recently retired vice president of Bankers Trust Company and a director of a number of companies. His business experiences have proved valuable to the Company in the period he has been associated with Interstate.

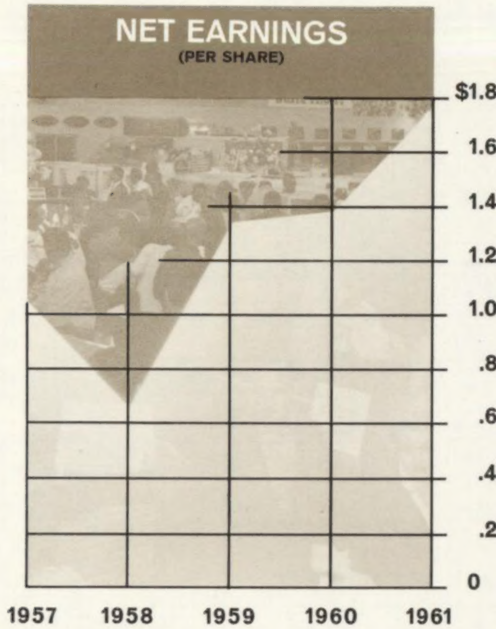
The Board and Management would like to take this opportunity to comment on the excellent teamwork that has been achieved within the Company. The organizations of White Front, Topps and the original Interstate group have been brought together to form a single, coordinated, and highly effective team. This integration has been achieved in a very short period of time, and with the full support of all involved. We would like to acknowledge that Interstate's success in building a major business in the discount field and in strengthening its position in the conventional retail field is due in large measure to their cooperation and teamwork.

Sincerely,

M. D. Safanie
Chairman

S. W. Cantor
President

Highlights



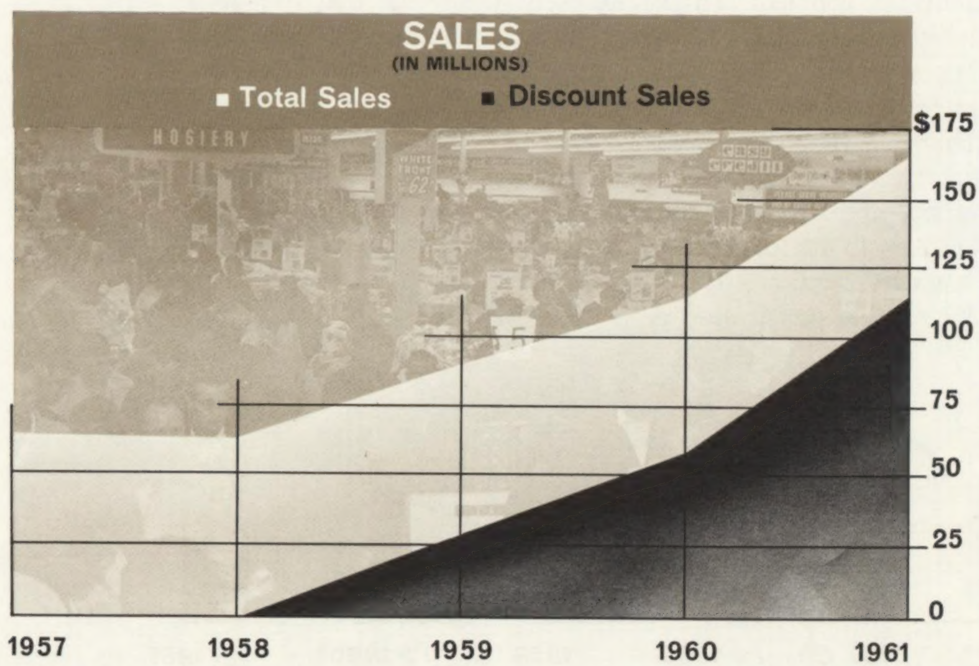
Interstate Department Stores' expansion in the discount retail field started in the Spring of 1959 when it completed negotiations for the acquisition of White Front Stores, Inc., an important discount operation on the west coast, consisting of two stores in the Los Angeles area.

Prior to taking that step Interstate had concentrated in the department store field and had built up a chain of downtown stores and a group of six suburban department stores. For a number of years sales of the chain had held steady at approximately $60 to $65 million.

The decision to enter the discount field was the result of several years experience operating an experimental store in Coplay, Pennsylvania. In this store the Company tested a number of techniques of discount retailing. The results convinced the Company that discounting had developed beyond the point of novelty and truly represented a revolution in retailing.

The next step was opening a chain of discount stores in the midwest which the Company named Family Fair. The first was opened in Toledo, Ohio, in the summer of 1959 and this was followed by a Family Fair in Canton, Ohio, later that year and three Family Fairs in Louisville, Kentucky, in 1960.

Simultaneously, it moved ahead with plans for expanding its White Front operation on the west coast. A third White Front store was opened late in 1960 and this was the largest of any Interstate discount

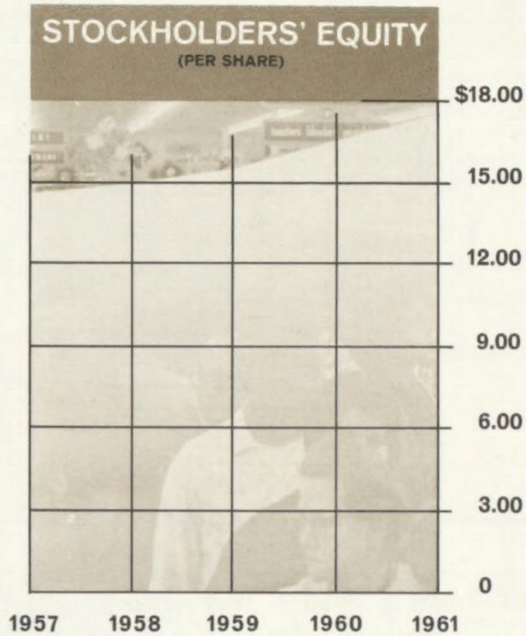


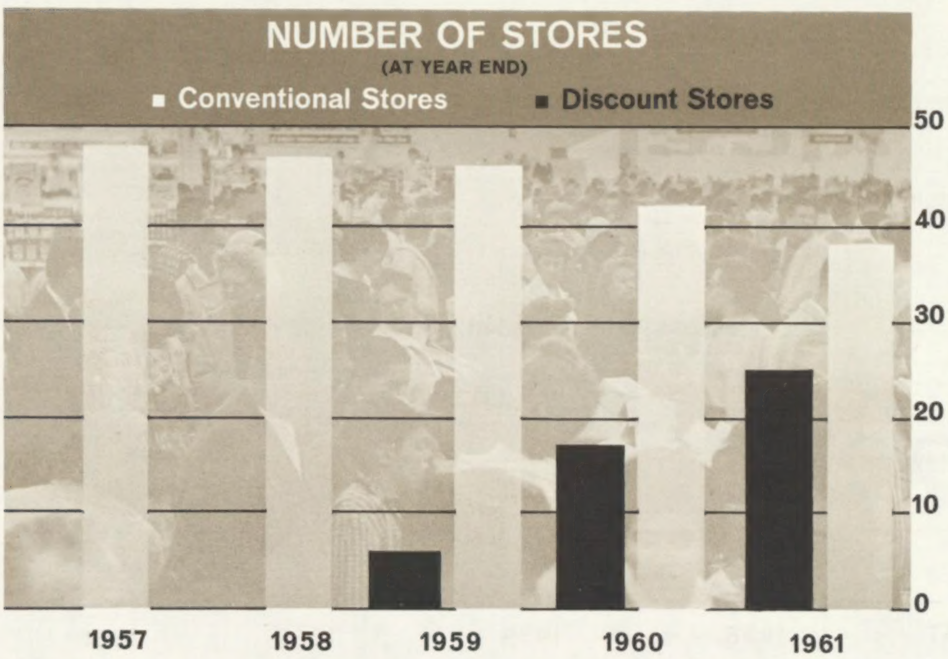
store, with over 100,000 square feet of selling space. In 1961 a fourth White Front store was opened in a new warehouse building in Los Angeles and early in 1962 a fifth store was opened in Covina, a suburb of Los Angeles. In the balance of the current year Interstate plans to add two more White Front stores in the Los Angeles area, which will give the Company a total of seven in the community.

A major step in the Company's development was the acquisition of the Topps group of eight discount stores in 1960. Since then the group has been expanded to 16 stores. In the Chicago area alone the Company has four Topps stores.

As this expansion took place, Interstate undertook a companion program aimed at strengthening the profitability of its department store operation. The program consisted of disposing of marginal stores and modernizing those stores in the Company's chain which were considered key stores in their respective communities.

As a result of the dual program, Interstate's sales have increased from $65 million to $165 million in three years; its discount retail operations totalled 25 stores at the end of last year; its conventional downtown stores have declined from 47 to 37; and its earnings have increased from $.62 a share to $1.77 a share, based on the average number of shares outstanding in the respective years, adjusted for last year's three-for-one stock split.





Consolidated

ASSETS

	1961 (As at Jan. 31, 1962)		1960 (As at Jan. 31, 1961)	
Current Assets:				
Cash		$ 1,494,642		$ 1,916,728
Accounts receivable:				
Customers	$ 6,413,417		$ 6,415,816	
Less: Reserves	347,074	6,066,343	351,715	6,064,101
Other		1,929,426		1,173,754
Merchandise inventories (Note B)		21,658,012		15,690,442
Prepaid expenses		855,575		691,059
Fixed assets held for resale (Note G)		590,955		242,209
Total Current Assets		32,594,953		25,778,293
Other Assets		447,452		430,289
Fixed Assets—at cost (Note C):				
Land, land improvements and buildings	870,208		871,578	
Furniture and equipment	6,474,846		6,111,586	
Leaseholds and leasehold improvements	7,100,151		6,042,284	
	14,445,205		13,025,448	
Less: Reserves for depreciation and amortization	6,104,903	8,340,302	5,326,700	7,698,748
Deferred Charges		291,502		266,273
Intangibles Applicable to Subsidiaries Acquired (Note A)		3,594,198		3,381,222
		$45,268,407		$37,554,825

See accompanying notes.

Balance Sheet

LIABILITIES

	1961 (As at Jan. 31, 1962)		1960 (As at Jan. 31, 1961)	
Current Liabilities:				
Current installments of long-term debt (Note C)		**$ 2,051,103**		$ 2,915,011
Accounts payable—trade (Note B)		**9,847,833**		8,261,832
Accrued expenses and other liabilities		**2,701,997**		2,122,709
Taxes withheld and accrued, other than Federal income taxes		**1,290,368**		973,170
Accrued Federal income taxes (Note D)	**$ 1,535,138**		$ 1,343,118	
Less: United States Treasury Bills—at cost, plus accrued interest	**—**	**1,535,138**	499,483	843,635
Total Current Liabilities		**17,426,439**		15,116,357
Deferred Federal Income Taxes		**230,000**		145,000
Long-term Debt (Note C)		**6,960,967**		3,336,816
Total Liabilities		**24,617,406**		18,598,173
Deferred Income—Carrying Charges		**30,410**		38,895
Stockholders' Equity (Notes C, E and F)		**20,620,591**		18,917,757
Lease Commitments and Other Comments (Notes G, H and I)				
		$45,268,407		$37,554,825

See accompanying notes.

Consolidated Statement of Earnings

	1961 (Year Ended Jan. 31, 1962)	1960 (Year Ended Jan. 31, 1961)
Net sales:		
Owned departments	$129,370,220	$ 92,209,265
Leased departments	35,848,819	22,102,090
	165,219,039	114,311,355
Cost of sales (including certain buying, occupancy and distribution expenses)	134,692,924	90,941,566
	30,526,115	23,369,789
Selling, general and administrative expenses	26,946,298	21,273,240
	3,579,817	2,096,549
Other income—net	563,966	557,542
	4,143,783	2,654,091
Interest expense	314,370	268,287
Net earnings before Federal income taxes	3,829,413	2,385,804
Provision for Federal income taxes	1,750,000	895,000
Net earnings	$ 2,079,413	$ 1,490,804

Depreciation and amortization included above amount to $996,482 (1961) and $888,935 (1960).

Consolidated Statement of Stockholders' Equity

	1961 (Year Ended Jan. 31, 1962)	1960 (Year Ended Jan. 31, 1961)
Earnings Retained for Use in the Business as at beginning of year	$12,464,362	$12,315,549
Net earnings	2,079,413	1,490,804
	14,543,775	13,806,353
Dividends declared (Note E)	1,714,686	1,341,991
Earnings Retained for Use in the Business as at end of year (Note C)	12,829,089	12,464,362
Capital Surplus (Notes C and E)	5,398,390	4,877,889
Common Stock (stated at par value of $1 per share, plus $1,271,306 retained as Capital by resolution of the Board of Directors):		

Shares	1961	1960
Authorized (Notes C, E and F)	3,000,000	500,000
Issued (Notes C and E)	1,188,654	375,624
To be issued (Note E)	22,422	17,846
	1,211,076	393,470

	1961	1960
Common Stock	2,482,382	1,664,776
	20,709,861	19,007,027
Less—Treasury stock—at cost—8,538 and 2,846 shares, respectively	89,270	89,270
Stockholders' Equity	$20,620,591	$18,917,757

See accompanying notes.

Notes to Financial Statements

The financial statements as at and for the year ended January 31, 1961, with certain reclassifications, are shown for comparative purposes only. Reference should be made to the previously issued report for the Accountants' Report and notes pertaining to those financial statements.

NOTE A — During the year, the Company purchased the capital stock of a company operating two retail stores; the excess of cost over underlying book equity amounted to $200,776 and is included in the accompanying consolidated balance sheet in the caption "Intangibles Applicable to Subsidiaries Acquired."

In the opinion of management no amortization of intangibles is required, as to date there has been no indication of a loss or a limitation on the useful lives of intangibles, including those arising in prior years.

NOTE B — Merchandise inventories are stated at the lower of cost or market based principally, as to inventories at stores, upon the retail method; the cost of approximately 18% of the inventories is determined by the last-in, first-out method. Accounts payable as at January 31, 1962, include approximately $300,000 which is collateralized by merchandise inventories of approximately the same amount.

NOTE C — Long-term debt consists of the following:

	Total	Portion Payable Within One Year	Portion Payable After One Year
4⅝% Convertible Subordinated Debentures due August 1, 1981	$5,620,100		$5,620,100
5% Notes payable to banks (final installment)	840,000	$ 840,000	
Notes payable to an insurance company in the amounts of $850,000 and $415,000 due in annual installments as follows: on the first note (interest rate 3¾%), $350,000 in 1962 and $500,000 in 1963; on the second note (interest rate 4½%), $65,000 from 1962 through 1966, inclusive, and $90,000 in 1967	1,265,000	415,000	850,000
Amounts due for purchase of subsidiaries (final installment)	643,750	643,750	
6% Note payable to bank, due in monthly installments (including interest) of $2,221 to February 1, 1971	186,234	15,906	170,328
Mortgages and trust-deed notes payable	333,636	22,664	310,972
Other	123,350	113,783	9,567
	$9,012,070	$2,051,103	$6,960,967

The indenture under which the 4⅝% Convertible Subordinated Debentures due August 1, 1981, were issued provides for the Company to pay into a sinking fund, during the years 1968 to 1980, an amount sufficient to redeem each year $275,000 principal amount of Debentures. The Company may, at its option, pay into such sinking fund an additional amount not to exceed $275,000 in any year. In addition, the Debentures may be redeemed, in whole or in part, at principal amount plus a premium of 4.375%, which premium declines ¼ of 1% annually. So long as the 5% Notes (see above) are outstanding, the Company has agreed not to exercise such right of redemption, without the prior written consent of the holders of such notes.

The Debentures may be converted into Common Stock at a conversion price of $28.46 per share, as adjusted for a 2% stock dividend. During the year $239,300 of Debentures were converted into 8,244 shares of Common Stock, resulting in increases in Common Stock of $8,244 and in Capital Surplus of $230,737. Based upon the foregoing conversion price, the outstanding Debentures at January 31, 1962, may be converted into a maximum of 197,474 shares of Common Stock.

The Indenture relating to the Debentures and the loan agreements with the banks (relating to the 5% Notes) and with the insurance company contain, among other matters, covenants restricting the right of the Company to declare dividends (other than stock dividends). Under the most restrictive of these covenants, approximately $3,000,000 of consolidated earnings retained for use in the business is not restricted for the payment of dividends as at January 31, 1962.

The mortgages and trust-deed notes payable set forth above are collateralized by fixed assets having an aggregate depreciated cost of approximately $525,000 as at January 31, 1962.

NOTE D — The accompanying financial statements are subject to final determination of Federal, state and local taxes.

NOTE E — Dividends declared as shown in the accompanying consolidated statement of stockholders' equity consist of cash dividends of $557,702 and, based upon market quotation, a two percent stock dividend of $1,156,984 of which $57,858 is payable in cash in lieu of fractional shares. The aggregate par value ($22,422) of the shares issuable in connection with such stock dividend has been credited to Common Stock and the balance ($1,076,704) has been credited to Capital Surplus.

During the year, the authorized number of shares of the Company's Common Stock was increased to 3,000,000 shares; in connection therewith, a three-for-one stock split was effected in the form of a stock dividend. The aggregate par value ($786,940) of the shares so issued was credited to Common Stock and a like amount charged to Capital Surplus.

NOTE F — During the year, the Board of Directors authorized, subject to approval of stockholders, a restricted stock option plan under which options may be granted to officers and key employees to purchase not more than 81,600 shares of the Company's Common Stock at not less than 95% of fair market value at date of grant. The options are exercisable 20% a year (on a cumulative basis) commencing one year from date of grant and expire ten years from date of grant. Options were granted to purchase 71,808 shares at $32.78 a share and 918 shares at $33.42 a share. Numbers of shares and prices per share have been adjusted for the effect of a two percent stock dividend declared during the year.

NOTE G — At January 31, 1962, the minimum annual rentals of real and personal property leased to the Company or to its subsidiaries under leases expiring after January 31, 1965, and applicable to stores presently in operation amount to approximately $3,800,000 plus, in certain instances, real estate taxes, insurance, etc. In addition, leases applicable to stores scheduled to open in 1962 provide for minimum annual rentals of approximately $2,400,000, which rentals will commence upon the opening of such stores.

Included in the minimum annual rentals above is $130,000 representing rentals applicable to fixed assets sold and leased back during 1961 ($242,209) and in March 1962 ($590,955). The sales prices were substantially equivalent to depreciated cost.

NOTE H — An employment contract provides, under certain conditions, for payments to the Company's president during each of ten years subsequent to termination of his employment of an amount equal to the aggregate of $6,000 plus $2,500 multiplied by the number of years of his employment from February 1, 1959, through January 31, 1963. The accompanying financial statements do not include any provision therefor.

NOTE I — In the opinion of management, pending litigation will not materially affect the accompanying consolidated financial statements.

Accountants' Report

To the Board of Directors
INTERSTATE DEPARTMENT STORES, INC.
New York, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc., and subsidiary companies as at January 31, 1962, and the related consolidated statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity, together with the notes to financial statements, present fairly the consolidated financial position of Interstate Department Stores, Inc., and subsidiary companies at January 31, 1962, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.
Certified Public Accountants

New York, N. Y.
April 11, 1962

10 Year Comparative Operating Statistics

(in thousands of dollars)

	SALES			NET INCOME				
Years Ended January 31,	Total	Owned Departments	Leased Departments	Before Fed. Inc. Tax	After Fed. Inc. Tax	Earnings Per Share*	Cash Dividends Per Share*	Stockholders' Equity Per Share*
1962	**$165,219**	**$129,370**	**$35,849**	**$3,829**	**$2,079**	**$1.77**	**$.45**	**$17.57**
1961	114,311	92,209	22,102	2,385	1,490	1.31	.40	16.64
1960	90,315	76,323	13,992	2,315	1,394	1.28	.37	15.53
1959	65,674	58,180	7,494	987	645	.62	.28	14.90
1958	66,653	59,408	7,245	1,623	1,040	.99	.75	14.58
1957	67,184	60,086	7,098	2,131	1,323	1.26	.75	14.34
1956	66,359	59,062	7,297	2,348	1,360	1.32	.75	13.87
1955	62,902	55,511	7,391	1,980	1,078	1.05	.75	13.33
1954	63,865	56,317	7,548	1,829	1,032	1.01	.75	13.03
1953	64,758	56,900	7,858	2,198	1,188	1.16	.75	12.77

* Adjusted to give effect to all stock dividends distributed through January 31, 1962 and the 3 for 1 stock split distributed June 23, 1961.

Discount Stores

WHITE FRONT STORES

CALIFORNIA	Anaheim Covina* East Los Angeles Los Angeles Van Nuys

TOPPS STORES

CONNECTICUT	Berlin Fairfield Hartford — Windsor East Hartford* Middletown West Haven
ILLINOIS	Chicago — Arlington Heights Chicago — LaGrange Chicago — Niles Chicago Heights
MARYLAND	Baltimore
MASSACHUSETTS	Fall River (Kerr Mill Bargain Center) West Springfield
MICHIGAN	Kalamazoo
NEW YORK	Albany — Menands
PENNSYLVANIA	Lancaster (Maple Grove Bargain Center)

FAMILY FAIR STORES

KENTUCKY	Louisville Louisville — Algonquin Plaza Louisville — Hikes Point
OHIO	Canton Toledo
PENNSYLVANIA	Coplay (Discount Fair)

* *Opened in fiscal 1962.*

Downtown Department Stores

ILLINOIS	Aurora Dry Goods Co., Aurora Carroll House, Belleville Peoria Dry Goods Co., Peoria Rockford Dry Goods, Rockford Springfield Dry Goods Co., Springfield Waukegan Dry Goods Co., Waukegan
INDIANA	The Evansville Store, Evansville Grand Leader, Fort Wayne Hill's, Marion Stillman's, Muncie Grand Leader, South Bend Hill's, Vincennes
IOWA	Hill's, Davenport Hill's, Des Moines
KENTUCKY	Paducah Dry Goods Co., Paducah
MICHIGAN	Grand Leader, Battle Creek Stillman's, Jackson Carroll House, Port Huron
NEW YORK	Stanley's, Troy Boston Store, Utica
OHIO	The Boston Store, Springfield
PENNSYLVANIA	Carroll House, Williamsport Stillman's, York
SOUTH CAROLINA	Bailes, Anderson
TENNESSEE	The Knox, Knoxville
VERMONT	Economy Department Store, Rutland
WEST VIRGINIA	The Huntington Store, Huntington
WISCONSIN	Fond du Lac Department Store, Fond du Lac Hill's Department Store, Milwaukee Racine Dry Goods Co., Racine Hill's Department Store, Sheboygan

Suburban Stores

ILLINOIS	Rockford Dry Goods, Loves Park
INDIANA	The Evansville Store, Lawndale Grand Leader, Fort Wayne
MICHIGAN	The Fair, Flint
NEW YORK	Boston Store, Latham Boston Store, Massena

Interstate Department Stores, Inc.